



United States Senator  
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REPORTS TO ALABAMA



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**HOW CAN WE HAVE A 'SURPLUS,' IF WE'RE \$5 TRILLION IN DEBT?  
AN EXPLANATION OF THE SO-CALLED 'BUDGET SURPLUS'**

One of the most important issues Congress will address next year is the fate of the so-called "budget surplus". Many people appear to have strong opinions on the issue, but remarkably few of them have even a basic understanding how the federal government's budget operates. For example, many people are surprised when they learn that the current level of federal income receipts is not sufficient to pay for current federal outlays. Because of the shortfall, this portion of the budget is currently in deficit.

Another important issue that seems to have been lost in the celebration over the budget surplus is that a significant level of national debt remains on the government's balance sheet. The national debt, which is the aggregate of all previous deficits, currently stands at almost \$5.5 trillion. Although the size of the national debt is falling as a percentage of Gross Domestic Product, the public should remember to distinguish a budget surplus in a given fiscal year from the accumulated debt from past deficits.

The question often arises as to how the federal budget can be in surplus, given these facts. The answer lies in the propensity of the media and politicians to report "unified" budget figures that include the financial flows from Social Security. When the level of payroll taxes, which fund Social Security, exceeds the amount paid to beneficiaries, as it currently does, the excess amount is "invested" in government securities. When this money flows to the Treasury it does

not sit idle, but rather is used to either retire existing debt or finance the government's current operations. The false impression that many people have is that there is an accumulating fund that will allow retirees to pay for their own retirement. However, this is not true. Most of the money that flows in via the payroll tax, immediately is shipped out to fund the retirements of current Social Security recipients.

Another misconception is that the unified budget is in balance because Washington has made the tough decisions needed to shrink government spending. President Clinton is fond of perpetuating this fallacy with his comments about ending "the era of big government". Unfortunately, nothing could be further from the truth. Government expenditures, despite dramatic reductions in defense spending, are now \$150 billion higher than they were in 1995. In fact, although the defense budget has been cut by \$100 billion (adjusted for inflation) over the last ten years, free-wheeling federal spenders and advocates of big government have managed to hike overall spending by increasing funds for social welfare programs by \$300 billion.

Another example of President Clinton playing fast and loose with the facts was his pledge to use every penny of the budget surplus to "save Social Security first." Despite this dramatic statement, a few days later the President sent a budget blueprint to Congress proposing \$150 billion in new spending. These new programs would be funded directly at the

expense of the budget surplus, and thus Social Security. Despite his willingness to spend the surplus, the President has taken a particularly hostile stance toward tax cuts. Although I agree with the President's priorities regarding Social Security, I do not see "saving Social Security" and providing tax cuts as being mutually exclusive. Clearly if we lower the tax burden on working families, they will be better equipped to save for their own retirements, thus reducing the impending strain on the system. No less than a dozen bills have been introduced in Congress, by Republicans and Democrats alike, that feature tax cuts as part of a plan to shore up Social Security. Most of these plans would allow workers to divert part of what they currently pay in taxes, to a personal account that resembles the wildly successful 401(k) retirement plan.

Indeed, when the 106th Congress convenes in January the most pressing issues will revolve around the federal budget. Members of the House and Senate will make important decisions regarding tax cuts, the size and scope of government, and Social Security reform. These decisions will not be made in a vacuum, in fact, Congress will rely heavily on the guidance of the American people. If there is going to be a useful discourse between the voters and Congress, the public must fully appreciate what is involved in the federal budget process. The better the public grasps these nuances, the more likely the democratic process will ensure America's financial soundness, and the solvency of Social Security, into the 21st Century.

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